

CHAPTER 8

PURCHASING

SCOPE

This chapter is a brief summary of State of Indiana purchasing rules and regulations, as established by the Indiana Department of Administration (IDOA). Further regulations are included in Indiana Administrative Code (IAC), Title 25 and specific current purchasing regulations are detailed in the IDOA publication, *STREAMLINING Delegation of Purchasing Authority Program*, which is available at www.in.gov/idoa/3341.htm.

8.1 STATUTORY AUTHORITY

IC 5-22-2-24, Sec. 24(a) states in part: "Purchase" includes buy, procure, rent, lease, or otherwise acquire. (b) The term includes the following activities: (1) Description of requirements. (2) Solicitation or selection of sources. (3) Preparation and award of contract. (4) All phases of contract administration. (5) All functions that pertain to purchasing.."

IC 4-13-1.3 delegates to the Department of Administration the authority and responsibility for purchasing of all supplies and services for state agencies under IC 5-22, including adoption and maintenance of purchasing regulations. Specific purchasing regulations are included in Indiana Administrative Code (IAC), Title 25. (www.in.gov/legislative/iac/iac_title?iact=25)

8.2 ACCOUNTING THEORY

8.2.1 Encumbrances

By entering purchases in eProcurement (ePro), pre-encumbrances will be established when a requisition is approved. Pre-encumbrances will be automatically converted to encumbrances when the related purchase order has been dispatched. Thus, as the encumbrance process sets aside appropriated funds for a specific expenditure, overspending of appropriations will be prevented. Outstanding encumbrances should be periodically reviewed to determine whether still in effect; if not, the outstanding encumbrance balance should be liquidated, thus freeing the related funds for future expenditures.

8.2.2 Capital Asset Purchases

Purchasing capital assets through ePro is required for several reasons, one of which is that required asset information will be included throughout the process which will enable the asset to be automatically included in the State's asset system. Inclusion of all capital assets is a vital component of the State's financial reporting. Through volume purchasing, more value for the dollar with ePro purchasing will result in a higher level of accountability for tax dollars.

8.2.3 Leasing Capital Assets

When processing an asset lease through ePro, it is required that, in the PO process, a checkbox be selected to indicate a lease transaction. All lease documents will be assessed through ENCOMPASS by IDOA financial staff to determine whether the lease qualifies as a "capital lease". Generally accepted accounting principles require that capital leases be considered as an owned asset and depreciated as such. Operating leases, on the other hand, are expensed as lease payments are made.

8.3 INTERNAL CONTROLS

8.3.1 Segregation of Duties and Roles

If one individual is responsible for the requisition, purchasing, and receiving functions, fictitious or unauthorized purchases can be made. This may result in the theft of goods and possibly payment for unauthorized purchases.

Roles approved by the Financial Policy Group and set up by GMIS are designed to reduce the risk of collusion and unauthorized purchasing to a relatively low level. (-See the internal control flowchart and role definitions at <https://myshare.in.gov/sba/encompass/default.aspx>.) It is recommended that the various ePro roles be assigned to separate individuals as shown by different colors on the chart.

An employee who has been designated as Procurement Agent/Buyer for an agency after satisfactorily completing applicable IDOA courses may be assigned to Requisition, RFP, and PO roles if the following conditions are met:

- Requisitioner records Requestor (if different) and requisition is approved by 1) PRCAGENT; 2) FISCAL; and 3) MGMT.
- PO is then be approved by 1) Head Procurement Agent or IDOA (if applicable) and 2) FISCAL.

The following are definitions of ePro entry and approval roles:

- PRCAGENT – Procurement Agent – Delegated by IDOA; if more than one, a Head Procurement Agent is determined
- FISCAL – Fiscal approver – Usually CFO or director of accounting department – must have knowledge of accounting rules, chart of accounts, etc.
- MGMT – Management approver – preferably direct supervisor of Requestor.

NO ONE should hold all three roles; PRCAGENT and FISCAL can NEVER be same person. It is preferable that all three be separate individuals.

Additional levels may be added, as requested by agency, for certain types or cost of purchases.

Routing for Purchase Approvals

The ePro system will automatically route requisitions and purchase orders through the approval system as required for each type of purchase. Approvals may be required of the Commission on Public Records (ICPR), the Office of Technology (IOT), or the Department of Administration (IDOA) Procurement Division, Motor Pool, Budget Agency, PEN Products and/or IN-ARF. Except for requisitions, necessary budget checks will be processed automatically prior to agency supervisory approvals.

8.4 BUSINESS PROCESSES

8.4.1 Purchasing from State Resources

Regardless of the type or dollar amount of any purchase, products or services available from the three sources in this section must be purchased from these sources.

8.4.1.1 Quantity Purchasing Agreement (QPA)

QPA contracts for repetitively purchased items are negotiated by the IDOA Procurement Division only, resulting from a competitive solicitation process designed for cost savings through volume purchasing. QPA contracts are available at www.in.gov/idoa/2815.htm.

8.4.1.2 IN-ARF

As provided by IC 5-22-13-3, work centers provide guaranteed products and services to state agencies and local governments while benefiting persons with disabilities. The IN-ARF catalog is available at www.inarf.org.

8.4.1.3 PEN Products

Established by the Indiana Department of Correction as provided by IC 5-22-11, a variety of products and services are offered by PEN Products, including office furniture and supplies. The PEN Products catalog may be viewed at www.in.gov/idoa/3341.htm.

8.4.2 Exceptions to State Resource Purchasing (See IC 5-22-10)

Exceptions may be made to the requirements of 8.4.1 if:

- A substantial cost savings will result from making the purchase from another source.
- Or
- The agency's functional requirements can't be met by the product or service available from the State Resource.

Potential cost savings must be considered with application of the Fair Market Price policy available in the *STREAMLINING Delegation of Purchasing Authority Program*, available at www.in.gov/idoa/services/proctraining/.

8.4.2.1 Other General Procurement Regulations

All purchases, regardless of amount, must be in concurrence with current IDOA procurement regulations. A few general guidelines are:

- Purchases of less than \$500 may be made without soliciting competition.
- Purchases of \$500 to \$5,000 require informal quotes; although for quotes above \$2,500, the vendor must sign a quote package containing State Terms and Conditions.
- Purchases of \$5,000 to \$75,000 require formal written quotes (agency handles within their delegation).
- Purchases \$75,000 and above must be solicited, awarded, and processed by the IDOA Procurement Division.

Specific rules on obtaining quotes for commodities, contracts and printing are in the *StreamliningManual*, available at www.in.gov/idoa/files/Streamlining-manual.pdf.

8.4.3 Purchase and Payment Processing

As explained in 8.2, **Accounting Theory**, if purchases are processed through ePro, funds will be automatically encumbered for specific purchases. Also, most accounting information will be automatically pulled from requisition to purchase order to receiver to voucher entry, eliminating the necessity to re-enter such information.

8.4.3.1 Requisition

Requisitions can be processed through the ePro system by selecting from a large array of products and vendors. The requisition request will be budget checked and routed to appropriate persons for approval. If a requisition is entered by staff other than the person requesting the purchase, the "on behalf of" option should be noted. The person requesting the purchase is known as the "Requestor".

8.4.3.2 Request for Quote

If quotes are required to be processed by the agency and the ePro requisition is developed through the quote process, complete ready-to-mail, fax (or e-mail) request for quote forms can be produced in the system.

8.4.3.3 Purchase Order

After a requisition and/or quote is processed in ePro and approved through all required channels, a purchase order should be processed in a similar manner. If desired, a copy of the PO can then be printed for the agency's records and the receiving department. A copy should be mailed, faxed, or e-mailed to the vendor.

8.4.3.4 Receipt of Product

When the product is received, a Receiver should record details of the receipt in ePro. The Receiver should be independent of the purchasing and payable process. If this person is unable to make the system entry, he/she should note on the bill of lading the quantity received and date received. After signing the bill of lading, he/she should send this paperwork to a person designated to make the system entry on his/her behalf. All such paperwork, or a copy, should be retained in the agency files.

8.4.3.5 Payment Processing (for ePro Purchases)

After receipt of the commodity or service, receiving information, including the date received, must be entered into the receiver. When the invoice is received and the receiver information is pulled to AP, the invoice date and accounting date should be entered in AP and a transmittal form printed. Attach the vendor's invoice to the transmittal form and send it to the Auditor's office for payment processing.

8.4.3.6 Payment Processing (for non ePro Purchases)

For non-PO purchases, all applicable information must be entered directly into the ENCOMPASS Accounts Payable module and an online voucher printed. Back up documentation should be attached to the online voucher and sent to the Auditor's office for payment.

Complete details on payment processing are included in Chapter 9, **Accounting for Expenses, Expenditures.**

8.4.3.7 Other Items of Note

Any procurement requiring another agency's approval will be automatically routed to that agency for approval through ENCOMPASS.

Signed receivers and other documentation must be retained at the agency for audit purposes and to comply with retention schedules.

Agencies are responsible for complying with all requirements established by the Department of Administration relative to this program. Agencies are subject to periodic assessments by Procurement Division staff and audits by the State Board of Accounts.

Contact the Department of Administration's Procurement Division with any questions regarding the Procurement Streamlining Program.